The Biggest Monetary Shock in 52 Years

I recently revealed that the so-called "BRICS+" countries will announce the creation of a new currency at its annual leaders' summit conference on August 22–24.

This will be the biggest upheaval in international finance since 1971. It's taking direct aim at the dollar.

Quite simply, the world is unprepared for this geopolitical shock wave.

It appears likely that the new BRICS+ currency will be linked to a weight of gold. This plays to the strengths of BRICS members Russia and China. These countries are the two largest gold producers in the world, and are ranked sixth and seventh respectively among the 100 nations with gold reserves.

One difficulty in considering the impact of the new BRICS currency on the dollar is that all dollar indexes compare currency to currency. But that's meaningless since the dollar, euro and sterling could all suffer from a loss of confidence at the same time.

If gold goes from $2,000 to $10,000 per ounce, that is better understood as an 80% devaluation of the dollar: from 0.0005 ounces per dollar to 0.0001 ounces per dollar. That's a collapse of confidence but you'll miss it if you're looking at euros or yen.

Those currencies will all be collapsing at the same time.

The Only Way to Measure the Dollar

The only objective metric for dollar strength is the dollar price of gold by weight since gold is not a central bank currency. This resolves any valuation conundrum as follows:

1. Dollar strength can only properly be measured in gold.

2. Gold is money but it is also a commodity.

3. BRICS are dollar poor but commodity rich.

4. A new BRICS+ currency will be linked to gold.

So the collapse of the dollar really means higher inflation and a much higher dollar price for gold. That means other commodity prices will rise in lockstep. A commodity boom favors BRICS generally speaking.

This dynamic could lead the BRICS+ currency to displace the dollar as a dominant payment currency more quickly than most expect because of the link to gold.

Except for direct participants, the world has mostly ignored this prospect. The result will be a shock to the international monetary system coming in a matter of weeks.

Still, the impact on investors won't end when the new BRICS+ currency is rolled out. The market implications will roil exchange rates and capital markets for years to come. Most people still have no idea how to even approach the subject.

Isn't Gold Too Volatile to Support a Currency?

After I introduced this subject earlier this month, I received a reader question that I think needs to be addressed:

Jim, since the gold price is really a function of the paper gold market and is therefore subject to manipulation – and significant volatility – wouldn't a gold-backed.currency require that gold be fixed at a certain price, such as it was fixed at $20.67 under the classic gold standard?

Otherwise, it would lack the stability a currency requires, even a gold-backed currency. Again, the paper market subjects gold to manipulation.

The U.S. obviously doesn't want a rival currency bloc, especially one led by Russia and China, and would have every motivation to sabotage it.

The U.S., in conjunction with the big banks, could create all kinds of havoc in the paper market to undercut gold prices.

There really can't be two parallel gold markets, one fixed at a certain price that BRICS recognizes and the other one fluctuating constantly.

In other words, can a trading bloc really adopt a gold-backed currency in the absence of an updated version of the classic gold standard with a fixed price?

Otherwise the volatility introduced by the paper market would render the underlying commodity unsuitable as a currency, which is meant to be stable. Or so it seems to me.

Am I missing something here?

It's a good question, and that reader is months ahead of the rest of the world in figuring this out.

Gold Manipulation Is Real

The reader is correct that gold prices are manipulated. There is hard statistical evidence to make the case, in addition to anecdotal evidence and forensic evidence. The evidence is very clear, in fact.

I spoke to a Ph.D. statistician who works for one of the biggest hedge funds in the world. I can't mention the fund's name but it's a household name. You've probably heard of it. He looked at Comex (the primary market for gold) opening prices and Comex closing prices for a 10-year period.

He was dumbfounded. He said it was the most blatant case of manipulation he'd ever seen. He said if you went into the aftermarket, bought after the close and sold before the opening every day, you would make risk-free profits.

He said statistically that's impossible unless there's manipulation occurring.

I also spoke to Professor Rosa Abrantes-Metz at the New York University Stern School of Business. She is the leading expert on globe price manipulation. She has actually testified in gold manipulation cases.

She wrote a report reaching the same conclusions. It's not just an opinion, it's not just a deep, dark conspiracy theory. Here's a Ph.D. statistician and a prominent market expert lawyer, an expert witness in litigation qualified by the courts, who independently reached the same conclusion.

There's no need to get into the nuts and bolts of how the manipulation is carried out; it's enough to realize that it does actually happen.

Anyway, here's how I'd answer the reader's question…

It's All About Weight

There will not be two prices for gold. There can only be one price (with small differences for paper versus physical, commissions, etc.).

If there were two prices in the same currency the difference would quickly disappear due to arbitrage (buying a security in one market and simultaneously selling it in another market at a higher price).

The gold "price" may be expressed in dollars, euros or BRICS+. Of course, you'll get different absolute values in each currency but that's a function of exchange rates, not different prices for gold.

The BRICS+ currency will be valued in units of gold by weight.

I don't know what value they plan to use, but an example would be BRICS1.00 = 1 oz. gold. At today's market, that would make BRICS1.00 = USD1,950 — but that is not a peg.

The peg is 1.0 oz. So the BRICS currency will have a fixed value in gold.

At the same time, the dollar will have a floating value in gold as it has since 1971. That means the BRICS/USD cross-rate will float based on the value of gold measured in each currency. You will be able to calculate the value of BRICS1.00 measured in dollars, but that is not a peg.

Here's where it gets interesting for investors and for your asset allocation…

"China and Russia Are Likely to Call the Shots"

If the dollar price of gold goes up, the value of BRICS1.00 will go up against the dollar. If the dollar price of gold goes down, the value of BRICS1.00 will go down against the dollar.

If I'm a BRICS member, I might want the dollar price of gold to go up so I can buy U.S. goods and services on the cheap. Conversely, if I'm a BRICS member and a commodity exporter, I might want the dollar price of gold to go down so parties with dollars will buy more of my commodities.

Of course, that undermines the point of the BRICS currency to some extent because the whole idea is to get away from dollar-based transactions.

China and Russia are likely to call the shots. My estimate is they will want a high dollar price for gold in order to make their BRICS currency more valuable. This will help to increase their own wealth and destroy confidence in the dollar.

This policy backed up by physical gold purchases could drive the dollar price of gold to $3,000 per ounce or higher very quickly. In reality, the BRICS currency and physical gold are pegged and unchanged. If gold goes to $3,000 per ounce, we are actually witnessing the collapse of the dollar.

That's the whole idea.

The dollar stands to lose in value measured in gold or BRICS currency. The dollar will also lose value due to inflation resulting from the lower value. It will take more dollars

to buy imported goods or take vacations abroad.

Moving money to stocks, bonds or savings accounts won't protect you because they're all denominated in dollars.

There's a simple solution to this coming currency crisis. Just buy gold. That will preserve wealth and protect you from inflation. You can always sell the gold if you need cash; it's just that you'll get more cash than what you used to buy it. That's what the BRICS are doing and you can too.

Time to hop on the BRICS bandwagon — with gold.